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# "Canadian-American Border Alliance" (2)

Max S. Baucus

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Senator \* or Department\*: **BAUCUS**

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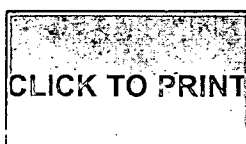
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Remarks of Senator Max Baucus  
Canadian-American Border Alliance

September 12, 1994

PAST VISIONS OF A UNITED HEMISPHERE

This December 10th, President Clinton will join the leaders of this hemisphere for a summit in Miami. With the NAFTA behind us, the summit's goal will be a plan for hemispheric free trade.

No doubt this will be hailed as a grand new vision. But in fact, hemispheric free trade is not a new idea. Simon Bolivar called the first hemispheric conference in Panama almost 170 years ago. Benito Juarez proposed free trade between Mexico and the United States during the 1850s. In 1889, Secretary of State James Blaine brought Latin America's foreign ministers to Washington, with hemispheric free trade as the central goal.

These were all capable people. They were leaders of great vision and great accomplishment. But their plans failed. As Blaine's Washington Conference opened in 1889, the Philadelphia Record predicted it would leave nothing of value, "unless it be the brass tablet which is to commemorate the event." And history has proven the Record correct.

But I think this summit will be different. And that is because we are drawing together with the other nations of the hemisphere in ways much more profound than any conference or trade agreement.

More than ever before, events throughout the western hemisphere affect the United States. We have watched few foreign elections as closely as today's contest in Quebec. Canada is the largest market, and Latin America is the fastest-growing market for American exports. More than 700,000 American export jobs now depend on healthy Latin American economies, and nearly two million on the Canadian economy. Our environment suffers from pollution on our border with Mexico, depleted fishing grounds in the Pacific and oil spills in the Caribbean.

And nearly nineteen million American citizens are now of Latin American background. They come from fishing villages on the shores of Caribbean islands; the high desert and mountain farms of Mexico; the banks of the Amazon and the Orinoco; the Altiplano and the plains of Patagonia. And they link America irrevocably with all those faraway places.

- Joe Stallen  
Canada  
- Signing the  
agreement  
in the beginning  
shouldn't worry about  
spending can money  
- future of NAFTA  
disputement  
at stake  
- can't afford  
another scenario  
like lumber  
- threat to the  
integrity of the  
prices

## CFTA: THE BEGINNING

So our choice is not whether integration will proceed; it is how we manage integration so it benefits us all the most. We took the first step by ratifying the free trade agreement with Canada five years ago. And as we look to a much larger free trade area, it is appropriate to review the CFTA and see what lessons it has for us.

We should begin by remembering that the CFTA was not very ambitious. There is no nation in the world with which we have older and deeper economic ties than Canada. We have no closer political friend and ally. And before the CFTA went into effect, 80% of our trade was already free of tariffs and quotas.

Under the CFTA, our exports to Canada rose from \$71.6 billion in 1988 to \$100 billion last year. That is a 41% increase. Montana, incidentally, is doing better. Our exports rose from \$90 million in 1987 to \$155 million in 1992. Canada's market has become critical to our sheep and cattle industries.

A national 41% increase is impressive. It is much better than we have done in Europe and Japan. But it is less than our 44% expansion of exports to the world during the same period. So the CFTA is only a modest economic success. But that, of course, is because it made only modest changes in our trade relationship.

And our goal was more than new exports; it was to end trade friction with Canada. And in that respect the CFTA has failed. As any Montana wheat farmer or mill worker can tell you, Canada plays rough on trade and plays to win. Our quarrels over transport subsidies, stumpage, fishing rights, meat inspection and so on are as frequent in 1994 as in 1984. In some cases -- wheat, lumber, salmon -- the anger is more intense, perhaps because so many expected the CFTA to make our troubles disappear.

Perhaps in time these disputes will become less frequent. Groups like the Alliance show that people on both sides of the border have the will to make that happen. But at the very least, it will be more difficult than almost anyone predicted in 1988.

## NAFTA ONE YEAR LATER

The next step was the NAFTA -- a far more complex task than the CFTA. Mexican wages were a seventh of ours. Its environmental record was spotty. It has an entirely different legal tradition -- the Napoleonic code as opposed to our common law. And its political culture differs greatly from ours. But a year after its passage, the NAFTA is proving a success.

In the first six months of 1994, we shipped 20,000 cars to Mexico. That is five times more than last year. And much of the gains here are still to come -- Mexican auto tariffs

were only halved last January, from 20% to 10%, and the remaining 10% will disappear in the next ten years.

In agriculture, our exports are up 12% over 1993. Beef, particularly important to us at home, is among the biggest winners, with exports rising 52% to \$82 million.

On a larger scale, the trends are just as clear. Just six months after the NAFTA came into effect, Mexico passed Japan as our second largest export market anywhere. Our exports to Mexico are up 16% over 1993. We are not losing but adding jobs.

Finally, NAFTA has put our political ties with Mexico on a new level. For example, Mexico invited American poll-watchers to report on the fairness of its Presidential elections last month. That would have been inconceivable at any time in the past, and it is a very good sign for future cooperation in other areas.

So on the whole, NAFTA works. But there are early warning signals we must watch with care. The U.S. and Mexican steel industries have already thrown anti-dumping cases at one another. The New York Times reported last week on a "milk war" between Juarez and El Paso, in which five American milk trucks have been destroyed and a driver beaten up. Mexico has placed new "health" restrictions on meat imports. These quarrels will not go away easily. If our disputes with Canada are a clue, they will become all the more troublesome as the NAFTA goes into effect.

## RESULTS OF HEMISPHERIC FREE TRADE

And now we face the most challenging step of all: extending the integration of North America to the nations of the Caribbean, Central America and the southern continent. It is a stirring vision. And in practical economic terms it offers a great deal.

First, in most areas our economy complements rather than competes with the Latin economies. Our environmental technology, grain, and aircraft trade well with Latin textiles, coffee and fruit. The Institute for International Economics estimates that by 2002, hemispheric free trade would raise our exports by \$36 billion. Our trade surplus with the region would rise by \$8 billion. And we would get a net gain of about 60,000 jobs, concentrated in higher-wage manufacturing sectors.

Second, we give up very little. Our tariffs average three to four percent. Our next partner, Chile, has an 11% tariff -- and that is one of the lowest in Latin America. After the Uruguay Round, our tariffs will average about 2% and Latin American tariffs about 10% -- a difference of five to one.

Third, going too slow may mean getting left behind. Other hemispheric trade arrangements are developing rapidly. Mercosur will eliminate tariffs among Argentina,

Brazil, Paraguay and Uruguay by 1995. Brazil has already suggested going on to a South American free trade area. We could find ourselves shut out if we don't keep up. Montana grain and beef, for example, could lose out to Argentine grain and beef all across South America.

And the benefits we derive from hemispheric free trade will be greatest in the long term. Latin America is growing fast. In this decade, its growth has averaged more than three percent. American firms already have a commanding position in the region, and can secure it forever with a successful trade agreement.

### INTEGRATION MUST GO BEYOND TARIFFS

As the NAFTA showed, however, a successful hemispheric trade agreement must go beyond tariffs. It must win better protection of intellectual property, more transparent trade laws and higher standards of labor rights and environmental protection.

I will place particular emphasis on the environment. I believe no hemispheric trade agreement should proceed without attention to the environmental protection from the very beginning. To understand why, we need only review our first venture into free trade with Latin America.

That was the maquiladora program, created back in the 1960s. This was a simple tariff program. Mexico imported American-made components duty-free to special zones along the border, assembled them into final form, and shipped them back to the United States.

In economic terms, the maquiladoras succeeded. They created jobs and growth along the border. But their environmental effects made the whole program a terrible mistake.

The border began to smell -- I've been to Juarez myself, and I know. The rates of infectious disease rose in American border towns. We have a \$30 billion border cleanup bill. And the issue is more than aesthetics and higher deficits. Just last month, a teenager who took a swim in the Rio Grande died from a disease caused by a rare form of amoeba which flourishes in raw sewage.

So to make NAFTA work, we went far beyond the CFTA. We included environmental and labor safeguards. Provisions on child labor. Border cleanup and a North American Development Bank. Agreements with other Latin American countries may require equally complex negotiations -- on environmental law enforcement, fisheries, perhaps forestry, perhaps other issues.

## MOVE AHEAD WITH CAUTION

It is a great challenge. And it is one we cannot escape, because rejecting closer ties with these countries will not stop integration. It will only ensure that integration is chaotic and damaging -- that it means uncontrolled migration, drug trafficking and avoidable environmental disasters rather than jobs, growth and sustainable development.

But moving too fast is just as risky.

First, failure comes with a cost. If we begin talks and cannot agree, or if we reach agreements and cannot ratify them, we do not return to the status quo. We slide back. We cause ill feeling, we alienate one another, and it takes years to recover.

Second is the practical question of human resources. We have only 160 trade negotiators at the USTR. They are top quality. They work very hard. But they are human beings and there are limits on what we can ask of them.

That being the case, we must set priorities carefully. When we assign our negotiators to Chile or Colombia, we take them off Japan or the European Union. So the tasks we assign them must be those that mean the most economic gain for the United States.

Asia is a good example. While Latin America now takes about 6% of our exports, East Asia takes 24%. American exports rise \$54 million for every billion dollars in Latin American growth; but they rise \$65 million for every billion in Asian growth.

Thus, we should gain more by opening Asian markets than through free trade with Latin American countries -- in particular since Latin America's largest economy, Brazil, is also the least advanced in economic reform, the most dependent on subsidies and protectionism, and thus the farthest from a free trade agreement. So agreements with Latin America must not pull our negotiators away from Japan, China and Southeast Asia.

## PUBLIC WORKS, BORDER ACCESS AND TRADE AGREEMENTS

Third, and most important, trade agreements are more than signing ceremonies. They are long-term processes. And it is more important to make sure our existing agreements are working than it is to sign new agreements. To illustrate the point, let us return to the free trade agreements with Canada and Mexico.

In the real world, open trade is not an agreement. Trade is putting a product into a truck or a train or a boat and moving it from one place to another. So the quality of our roads and ports is more important to a successful NAFTA than anything else.

Almost three fifths of the U.S.-Canada freight and four fifths of the U.S.-Mexico

freight moves by truck. So if roads like I-90 and I-15 degrade, Montana grain and beef will rot in the barn. If the ports are not the world's best, cars and computers will pile up on the dock. If roads to our northern border ends in a 19th-century counting house, fewer Montanans will think about exports. The Rocky Mountain Trade Corridor will be nothing more than a pipedream.

With advice from Bob Frazier and others in the Alliance, I have drafted a new National Highway System bill. In the early years of the 21st century, about 159,000 miles of road will carry over 40% of our total highway traffic and 70% of commercial truck traffic. My bill will use state-of-the-art technology to make them the best in the world.

In the future, NHS roads will link up in a seamless web with our airports, seaports, border points and railheads. Our border crossing points will use "Intelligent Vehicle Highway Systems" to tag trucks and assess highway tolls and border crossing fees electronically, so they don't have to stop at all. Cars and trucks will be able to use our Global Positioning System to tell precisely where they are on any NHS road at any time.

Coming back down to earth for a moment, the NHS bill also creates or upgrades fifty-three specific border crossing points with Mexico and Canada. And it will give states more flexibility to use their highway funds to upgrade border crossing points, and eliminate obstacles to collaboration on border infrastructure with the private sector.

Congress will also examine changes to the highway program that recognize the importance of trade corridors. Section 6015 of the Intermodal Surface Transportation Efficiency Act -- better known as "ISTEA" or simply "the highway bill" -- required a report on border crossings and transportation corridors for North American trade. One of this report's recommendations is for Congress to consider a separate funding category for border crossings when we reauthorize ISTEA. That's something I will think hard about, and I'll want your opinion as well.

To make a long story short, we can only make the most of our trade opportunities with Canada and Mexico through detailed, painstaking assessment of our needs in roads, ports, and border crossings. And as we approach hemispheric free trade, we will need the same kind of work on an even larger scale.

### DISPUTE SETTLEMENT MUST WORK

Finally, when we think about future trade agreements, we must first be sure our existing agreements can resolve disputes.

Again, we can learn some lessons from the CFTA. It is by no means an easy or painless agreement. In five years, we have sent trade problems with Canada to dispute settlement fifty-nine times. That is nearly once a month. And with the recent decisions on



timber subsidies, there are questions about whether this process works. Montana may well benefit from the CFTA; but it has few friends there.

The strains that emerge in the next few years over the NAFTA may be even greater. Statistics to the contrary, Montanans are not yet confident that NAFTA is a success. And before we ratify a new and broader trade agreement with Latin America, they will want to be confident about it. They will want to know that NAFTA is not taking jobs; that NAFTA's dispute panels are fair and effective; that the labor and environment side agreements work.

I think a lot of ordinary working Americans feel the same way. They have a right to see their concerns met. If the government insists on moving ahead before that happens, I believe there will be a backlash against all future trade agreements.

### BOLIVAR AND SAN MARTIN

At the Hemispheric Summit this December you will hear a lot of calls to arms. You will hear talk about destiny and quotations from Simon Bolivar. All very appropriate. But we can learn more from Bolivar's friend, admirer and rival -- Jose de San Martin, the liberator of Argentina and Chile.

Bolivar was given to oratory and flamboyant actions. San Martin was more cautious. More of a listener. More concerned with building strong foundations than spectacular accomplishment.

When he had won his battles in the Southern Cone, San Martin's supporters urged him to march on to Peru as fast as possible. But he replied that he would "not take one single step ahead of the progressive march of public opinion." And because of this cautious, deliberate approach, San Martin's accomplishment was more solid and lasting than that of his rival.

The vision that we will see at the summit is the right one. But as we pursue it, we will serve our country best by following San Martin's example. Keep the goal in sight. Consolidate the achievements we have already made. Heed the public's concerns. And move ahead -- but be careful.

Thank you very much.